



TITLE:

<Special Feature "New Waves in Islamic Economics: Renovation of the Traditional Economic Institutions (Waqf and Zakat) and Reconsidering Early Generations">The Emergence of Islamic Economic Movement in Indonesia: A Political Economy Approach

AUTHOR(S):

Banjaran, Surya Indrastomo

---

CITATION:

Banjaran, Surya Indrastomo. <Special Feature "New Waves in Islamic Economics: Renovation of the Traditional Economic Institutions (Waqf and Zakat) and Reconsidering Early Generations">The Emergence of Islamic Economic Movement in Indonesia: A Po ...

ISSUE DATE:

2016-03-16

URL:

<https://doi.org/10.14989/210346>

RIGHT:

©京都大学大学院アジア・アフリカ地域研究研究科附属イスラーム地域研究センター 2016

## **The Emergence of Islamic Economic Movement in Indonesia: A Political Economy Approach**

**Banjaran Surya Indrastomo\***

### **I. Introduction**

The rapid development of Islamic financial industry in Indonesia has taken the interests of various stakeholders that are keen to learn and benefit from the success story of this alternate financial development. Not only that Indonesia has a huge potential for the industry to upscale its size and outreach splurged by the huge number of Muslim population but also the unique characteristic of the industry's development that distinct its story from another developmental story across the globe. First and foremost, the bottom-up process that the Indonesian Islamic financial industry entailed with suggests that the evolvement of the industry is filled with the aspiration and expectation of the periphery that driven both demand and supply of Islamic financial industry. This consequently creates a development in a natural and value-loaded form. Beside the development-from-the-down-under inimitability of the development of Islamic financial industry in Indonesia, the emergence and later development of the industry passed various stages that facilitated the process of coming into existence and nurturance of the industry and the market. The gradual leniency of the new order regime toward "Islamic" economic development in the early stage of the industry until the unleashing stage of the market and the economy through democratisation of Indonesian public sphere are among the factors enabling the progress and the achievement of the industry until recent years. These two distinct characteristics of the development story of Islamic financial industry in Indonesia appeal further interests, in particular, toward factors, process, and consequences of this development to the presence and emergence of the industry since the emergence of *Mith Gamr*, a social bank that existed in Egypt in 1960s.

The emergence of Islamic finance in Indonesia is inseparable from the call for alternate system of economy based on the values and norms of Islam in Indonesia. This movement is aspired by developmental failure of New Order period that was unable to deliver the promise, bringing social justice and equality into the stake. Thus, the post-modernity context is attached to Islamic economic movement in Indonesia as well as to the emergence of Islamic financial industry as the conditions and the setting surrounding the idea of Islamic economics as an alternative order of economy. In this paper, it is argued that Islamic economic movement in Indonesia is not solely a vocal attempt to bring "Islamic tradition of law" into the socio-economic relation and sphere as Hefner (1996) suggested. Instead, Islamic economic movement in Indonesia is influenced by the hope to realise a just and equitable economic

---

\* Ph.D Student, (Durham University, United Kingdom).

system, which is more related to the *maqasid* or the goal of the *shari'ah* rather than the formalistic interpretation of Islamic jurisprudence. This echoes with Siddiqui's (1981) view that remain on the holistic view of Islamic values and norms, which not only cover the legality of every transactions and conduct but also to touch the consequential ground. Consequently, this follows the argument that the *Qur'an* does not directly state a particular economic system by default. It is the holistic nature of Islam as a religion of practices that entails the believers with set of behavioural norms that govern the everyday practices of Muslim, including in the economy. Therefore, it is important to view Islamic economic and financial movement in Indonesia through the lens of constructivist rather than structuralist. The phenomena of the emergence of Islamic economics and Islamic financial industry in Indonesia is a socially constructed product, where notions and aspirations were adopted into the social construction of economic reality that moves by the aspiration to achieve development through alternative mode of economic order and links to the political economy situation of the nation during the emergence and the development of institutions and practices of economics in according to the Islamic principles and tradition.

In constructing the understanding of the emergence and development of Islamic economics and Islamic financial industry, it is essential to trace the process of evolvement of the concept, institutions, and practices of developmental-oriented Islamic economics and finance. For this purpose, the development of Islamic economics and finance is categorised into two period of development: (i) the development during New Order period and (ii) the development post-New Order. This brake-down is based on the argument that there is a structural change undertaken in the environmental setting of Islamic economics and finance in Indonesia, resulting from the removal of authoritarianism and the birth of democratic arrangement. This structural change in the environmental setting of the nation inevitably requires the analysis of the emergence and development of Islamic economics and finance in Indonesia to count for the distinction between the two periods. In addition, the process of transition of power and its impact to the political economy setting of the nation will be touched upon to contextualise the shift in the environmental setting of Islamic economics and Islamic financial industry. In the end, some reflection will be brought up to essentialise the process of emergence and development of Islamic economics and Islamic financial industry and to project the future of the movement and the industry and the potential outcome of the current development track.

## **II. Islamic Economic Movement in Indonesia during New Order Period**

The earliest public appearance of developmental-oriented Islamic economics and financial discourse in Indonesia can be traced as early as 1983s when the first National Conference on Islamic Economy was held at Universitas Islam Bandung or Islamic University of Bandung.

This conference has attracted interests of various figures to discuss and share thought on what the economy is ought to from the perspectives of Islam to embody the notion of social justice and equality in the heart of developmental concept. In the following year, the first institutional experiment on developmental-oriented Islamic economics and finance called *Baitul Tamwil Teknosa* was established in 1984 as a platform for the emerging Islamic economists and their supporters to translate their ideas and concept into practices. Through this experimental institution, the primer arrangement of profit-and-loss-sharing is formally introduced and applied to replace interest-based system of conventional finance. This would allow the institution to reach the unbankable group and the poor to open access of capital for this underprivileged and to bring the economy closer to the advocate of Islamic economics expectation, narrowing the gap between rich and poor and realising justice. Albeit the limited impact that this *Baitul Tamwil* made and the riddling governance problem that bring down the institution later on, the emergence of such experimental institution marks a social construction process of the so-called 'Islamically-oriented' developmental institution that fuelled with the applied interpretation of Islamic principles and customs in its operation. While the development of developmental-oriented Islamic micro institutions in Indonesia has began in the early 1980s, the emergence of medium size economic institution can only happen later in early 1990s with the establishment of Indonesia first Islamic bank, Bank Muamalat, in 1992. This development marks another hallmark of Islamisation of economic practices and financial institution where the concept reaches the central gravity of financial economy by transforming a conventional banking framework into an Islamic one. This entire process of emergence of Islamic economics and finance in Indonesia that begins with building public awareness over the concept up until converging the view of the centre toward Islamic alternative of financial framework suggests a story where it all begins from the sideline and moving along to the centre.

The rise of Islamic economic movement and Islamic financial institutions in Indonesia cannot be excluded from the context that set around the emergence of the construct in Indonesian setting. While such a movement is attached to similar call for the Islamisation of the economy that arouse around the world and marked by the establishment of Islamic banks across the Muslim world, the driving force that enables the creation of the institutions and the adoption of the practices in Indonesia is in absence from the indulgence of oil-income surplus that splurge Muslim countries with additional capital to boost the development of Islamic financial institutions. Even though the resources boom momentum reach and spur Indonesian economy, the New Order regime flipped its face from Islamic finance and favoured the conventional practices to manage resources for developmental purpose. The attachment of this alternate framework of finance to Islamic-oriented group caused the regime to adopt suspicious view over the call to assure that the regime identify and contained any

potential threat that any religious movement imposed into the unity of the nation (Choiruzzad, 2013). Thus, the central power has very little interest in nurturing the development of Islamic economy and Islamic financial institutions by investing the capital from the conventional financial framework to Islamic alternative.

Instead of the top-down initiative that lead the emergence of Islamic economic practices and Islamic financial institution, the major driver of the movement to Islamise the economy and finance in Indonesia came from the periphery Muslim that constituted both the supply and demand of Islamic mode of financing and other Islamic economic construct. It is argued here that the bottom-up initiatives that lead the emergence and the development of Islamic economic movement is fuelled by Muslim activism, securing the opportunity to embed and institutionalise Islamic values and norms through institutions and practices. Muslim activism here is defined as a collective act that seeks to extent the private Muslim identity into a public domain, addressing various social issues, including economic one. Thus, this definition distinct Muslim activism from Islamism that often attached to “fundamentalism” with its negated connotation within the struggle of power. Albeit other attempts offering alternative definition of Islamism, such as the essentialist perspective (Dekmejian, 1985), constructivist perspective (Mandaville, 2007), or social movement theorist (Gole, 2000) provide promising and inclusive view, a differing definition is necessary here to distinguish between a sole socio-political action and a formation of religious character and mode of economic practices for society empowerment. Indeed, there are similarities between this definition of Muslim activism with Ismail (2006) definition of ‘Islamism’ as a product of interplay between history and presence challenge and situation. Nonetheless, this definition still entangles expression of piety with the struggle to acquire dominancy in the central of power or politics. In other words, the comprehensive view that this definition offered, by including politic into the analysis, often confuses the apolitical nature of socio-economic movement that initiated by Muslim in particular environment. For this purpose, the emphasise on the rise of Muslim activism in enabling factors of the emergence of Islamic economic and financial movement in Indonesia is brought forward.

## **2.1 The Rise of Muslim Activism**

This rise of Muslim activism in Indonesia is made possible by the modernisation project that became the top priority of the New Order period. The transformation of the Indonesian economy from Agricultural-based economy into industrialised economy has boosted the contribution of manufacturing sector to total GDP from just under a tenth in 1966 to around 20% in 1990 while reducing the dependency of the domestic economy to agriculture production from around half of the total GDP in 1966 to just above 20% in 1990 (Hill, 1994: 84–86). As a result, income per capita rose on average of 4.5% per annum, allowing Indonesia

to enter the emerging middle-income countries group. With this strong development, the government was also able to run social welfare programme, among others are the provision of basic nine years education aiming to fight against heavy illiteracy rate (Jones, 1994) and the provision of health care services, especially in the attempt to improve early infants survival rate (Hull, 1994). In addition to that, the rapid economic development that the modernisation created produced a new social class, called the middle class. This class is considered as the inbetween group as it is nor a peasant nor a burgeoise. In a Marxist tradition, this social group is not formally recognised in the class system as it has no place, no role, and no direction in the social arena. Several other scholars attach middle class to a particular culture of profession, such as the white collar professional (Mills, 1951), entrepreneurs, commercial, and financial professionals (Hefner, 2000). This definition echoes Cambridge dictionary definition, where this group is described as

“a social group that consist of well-educated people, such as doctors, lawyers, and teachers, who have good jobs and are neither very rich nor very poor” (dictionary. cambridge.org).

Thus, middle-class is mostly described as an emerging group that comprises of groups of intellectual with strong education background and professional job.

During the New Order development period, the rise of middle-class in the urban area is among the highlighted transformation of Indonesian society. Dick (1985) argues that the domestic stability combined with the oil income surplus in 1970s has facilitated further consolidation of the middle-class during the New Order. In other words, the conducive environment and excess in capital during resource boom played role in accommodating the modernisation through industrialisation, enlarging the economy, allowing the provision of educations, creating more jobs and lifting standard of living of everyday Indonesians that formed the middle class. With the majority of the population subscribed to Islam, inevitably, the largest portion of this middle-class came from the Muslim background. Hence, the rise of Muslim middle-class dominates the story of middle-class consolidation in Indonesia. Like other middle-class groups, Muslim middle-class also comprises of professionals, civil servants, and intellectual (Wahid, 1990). The general characteristic of Muslim middle-class, which also applies to other middle-class, is its mode of consumption. The ability of middle-class to consume cannot be undermined and, for Muslim middle-class, this ability has been utilised beyond consumptive pattern. Dick (1990) links the mode of consumption of the middle class with cultural and political representation and aspiration of this class. In a similar way, Muslim middle class also make use of its bargaining power to consume to demand for not only a product that meet their expectation but also a product that suit their lifestyle.

This links to another characteristic of Muslim middle-class, which is its identity search

(Hefner, 2000; Wiktorowitz, 2002; Bayat, 2007; Pepinsky, 2013; Hassan, 2014). While Middle-class problem sit around the issue of defining their place, role, and direction in social sphere, Muslim middle-class faces a deeper challenge in establishing the living presence of Islam in the era of modernisation and globalisation (Pepinsky, 2013). The increasing importance of Islamic symbol in middle-class Muslim consumerist platform in Muslim world offers an early sign of the identity creation process of middle class Muslim in social sphere through social activism of the Muslim (Abaza, 2004; Hasan, 2014). Other experimental act on creating distinctive identity through religious attachment recorded in South East Asia with *Baju Kurung* and *Mini Telekung* for religious costume (Hasan, 2014) and contemporary Muslim women trend of veil (Fischer, 2008) give another indication that the rising Middle class has been active in the establishment of Islamic identity. The same experiences that exist in Indonesia suggest that, beyond enabling the demand for a differing products, services, and environment that represent religious expression, Muslim middle-class develop their own interpretation and expression of religious presence. The combination of both demand and supply of Islamic version of everyday behaviours, customs, and institutions is what constituted Muslim activism.

The emergence of Islamic economic movement in Indonesia is also a product of the rise of Muslim activism. The founding fathers of this developmental-oriented movement, among others A.M Saefuddin, Dawam Raharjo, and Amin Aziz, came from intellectual professional background of *Pusat Pengembangan Agribisnis* (Centre of Agribusiness development), Bogor Agricultural Institute (Choiruzzad, 2013). While the earliest public discussion on Islamic economics appears to be on the first National Conference on Islamic economics in Bandung, the movement earns attention from the religious council following the open discussion in the forum of Development Indonesia. Besides converging the stakeholders to incline toward the movement through open discussion, the movement also utilised other mean of converging the stakeholders perception over Islamic economics advocating through an emerging and established institution. For this purpose, ICMI or the intellectual Muslim Association of Indonesia has been turned as a vehicle for the movement to raise its influence and to gain support from other stakeholders. This approach turned out to be successful as the coalition building with various stakeholders, such as the religious council, has allowed the movement to earn legitimacy and later to induce the regime to accommodate the interests of the movement (Choiruzzad, 2012; Choiruzzad and Nugroho, 2013). This various modes of approach that the activists of Islamic economic movement adopted in the process of emergence and convergence of the stakeholders perception and views toward Islamic economic movement suggests that Muslim activism has play important role in enabling the movement to rise and evolve further beyond the passive influence of the growing middle-class effect in the development of the movement.

## 2.2 First Wave of Change in Environmental Setting

While the rise of Muslim activism has acted as the active advocate of the movement, the advocacy would not deliver result without an enabling environmental setting. The New Order government is considered a repressive developmentalist regime (Raharjo, 1981), where policy is centralised around the close circle of the regime and access to opportunity is distributed among the close-coalition through patronage networks (Robinson, 1988: 56). Thus, the space for development is limited and controlled by the inclination of the central power toward activities or movement. In particular, Suharto's regime maintained antagonist stance against 'Islamic' force post-transition of the regime into power. Yunanto *et al* (2003; cited in Choiruzzad, 2013) asserted that this was sourced from the regime approach in maintaining domestic political stability, which is achieved through removing potential oppositional threat that can rise from either the far-left or the far-right movement. Consequently, the religious activism that mostly came from Muslim group was contained to very limited spaces and such strategy became successful in taming potential activism from the Muslim group. Nevertheless, the idea of Islamic economy was treated differently from other political and Islamic activism. Choiruzzad (2013) argued that the momentum of emergence of Islamic economic movement with its tailored proposal of mode of achieving development and prosperity matched with the Muslim society and Muslim activism needs, which is the revitalisation of interpretation, expression, and articulation of Islam beyond political sphere. In other words, the appeal of the movement that seeks for the accommodation of alternative modernisation approach derived from Islamic sources coincide with the trend of redefining and re-conceptualising the presence of Islamic values and norms in everyday practices, including in the economic field. This exposes a characteristic of Islamic economic movement in Indonesia that emphasise the search of identity in its formation beyond the story that has been built around similar movement across the globe that linked to the failure of state-ideological formation and modernisation project in 1960s in the Muslim world, Islamic revivalism across the Muslim world that began in 1970s, or oil-income surplus that finance the development of the Industry in 1970s.

The Indonesian story that started in early 1980s was often associated with the Islamic revivalism that spread in Indonesia from the late 1970s. Indeed, it emerges from the spirit to re-enact and institutionalise the customs and the traditions of Islam in both private and public sphere that inspired the rise of Islamic symbol and its form in everyday practices in the Arab world and South Asia. Yet, as the process of emergence of Islamic economics in Indonesia depicts a construction process, where various interests are aligned in natural and negotiated manner, Muslim activism term is emphasised to express the created condition that is apolitical in nature and civil society based. This unique features embedded within the term would help to read the shifting political economy of spaces during that time. The rise of Muslim activism



that drives the development of Islamic economics and its institutions coincidentally occurred during the period where the coalition of the New Order faced a test of solidarity. The military, which has been Suharto's closest ally and aid since its rise into power, encounter internal friction between factions within the military as well as growing dissatisfaction to Suharto's leniency toward his children's involvement in state project. This struck the balance of the coalition that has maintained internal stability of the country. While the New Order coalition loses its point of sustenance, the emergence of middle-class with its activism has pushed for the demand of spaces for civil society to develop. This opportunity was also explored by the active middle-class of the Muslim group to gain spaces for the expression and articulation of religious identity in the public space. The apolitical nature of the activism in social sphere allowed this emerging group to grow in absence from latent contestation of the regime and marked a shift in the attitude of the regime toward the activism of the Muslim groups carrying the vision and principle of Islam.

Islamic economic movement in Indonesia benefited from this change in the environmental setting as the shift in the attitude of the centre toward Islamic force has facilitated progress on the adoption of Islamic economic framework and the establishment of Islamic financial institution. The first sign of the regime inclination toward the movement was Suharto's involvement in obtaining capital for the establishment of the first Islamic bank in Indonesia in 1991 (Choiruzzad, 2013). The supporting gesture of Suharto's toward the establishment of this value-loaded bank is captured by the central bank and translated into a formation of a special task force responsible for the creation of this bank. After one year, the first Islamic bank in Indonesia names as Bank Muamalat Indonesia was founded, followed by an enactment of Act No. 7/ 1992 that served as the foundational law on the operation of Islamic bank. Another progress of the Islamic economy recorded two years and five years after the establishment of the first Islamic bank with the establishment of first Islamic insurance, PT. Syarikat Takaful and the establishment of first Islamic mutual fund respectively. Beside the convergence of the centre to join force in Islamising the economy through institutional built-up, the civil society role in developing Islamic economy in Indonesia continued to be strong, marked by the rapid development of Indonesian authentic version of Islamic developmental institution, *Baitul Maal Wa Tamwil* or often shortened as BMT. Albeit the oddness of its presence due to the absence of a proper regulatory umbrella, this institution has emerged and mushroomed across Indonesia with an estimated presence of above 2,000 BMTs operating in 1997. With all these achievement, it can be concluded that this change in the environmental setting has aided the institutionalisation of Islamic economic movement through an established formal institutions it formed.

### III. Islamic Economic Movement in Indonesia Post-New Order

Islamic economic movement post-Suharto entered a new stage of development. The steady development of the industry and practices during the New Order era was transposed into a swift and promising development, highlighted from several key progresses that the movement recorded. In the beginning of post-transition period, several acts and regulations issued to facilitate the expansion of Islamic financial industry. There are three majors acts enacted to enhance the growth of the industry, complementing one act that was issued in 1992 to recognise the profit-loss sharing arrangement. The active involvement of the Central Bank through issuance of acts and regulations on key issues, such as monetary arrangement, asset valuation, money market, and short-term deposit for Islamic financial industry has also provided the market with necessary regulatory framework to advance further. The contribution of the religious council through the issuance of *Fatwas* also assured that the progress of the industry was backed by *shari'ah* legitimacy. Since then, the industry boomed and led the establishment of 12 commercial banks, 24 Islamic windows, 48 Islamic insurances, and 48 Islamic refinancing companies in 2013, from about 1 Islamic bank, and two Islamic insurances operating until 1998 (Otoritas Jasa Keuangan, 2014). In term of asset, the Islamic banking sector gained the most by booking Rp. 250.55 trillion in assets in 2014, indicating a sharp increase from only about Rp. 500 billion of assets in 1998 and enlarging the market share of the industry to a 5% level. Besides this progress in the mainstream Islamic financial sectors, the peripheral Islamic financial institutions also recorded a drastic increase. The Islamic rural banks or known as BPRS increased by more than double from 70 BPRS in 1998 to 163 BPRS in 2013 and upsized of their assets from around Rp. 500 billion to Rp. 4.8 Trillion (Otoritas Jasa Keuangan, 2014). The Indonesian peripheral Islamic financing house or *Baitul Maal wa Tamwil* (BMT) even recorded a dire increase by almost triple from around 2000 BMTs in 1998 to around 5,500 BMTs in 2013, mounting the asset under management from around Rp. 80 billion in 1998 to around Rp. 15 Trillion in 2013. This steeper growth of the expansion of Islamic financial institutions and Islamic economic practices suggests that there is a determining change that allowed the Islamic economic movement to push their agenda further since the transition period to democratic government.

#### 3.1 Second Wave of Change in the Environmental Setting

The dual crisis has been associated with the fall of the New Order regime under Suharto's leadership. The combined economic and political crises were considered as the main reason behind the removal of Suharto and the subsequent reform that took place in the country. The story started, when the foreign exchange turmoil that initially blasted in Thailand, ultimately arrived in Indonesia in the late 1997. Since then, the Indonesian rupiah depreciated from Rp. 2,000 per US Dollar in the mid 1997 to around Rp. 15,000 per US Dollar a year later.

This caused the unhedged debt of the private sector to skyrocket, leading to a rising cost of production. This inevitably increases the costs of goods and pushed the inflation rate to an uncontrollable level. While the economy faced serious threat, the created uncertainty sparked masses-protest over the New Order repressive, centralistic, and corrupt management. The worsening economic condition in the development turned the protest into active grievances. When the everyday people subsistence was under threat due to the unfavourable inflation rate and the social inequality was subjugated, people began to express their frustration and anger in the street. The grievance began to spread all over Indonesia with the university student leading in the central stage of the protest, demanding Suharto to step down from his position. In May 1998, Suharto responded to this demand by quitting his position as the president after thirty-two years in power. Yet, the change did not stop there as series of reform was preceded following the fall of Suharto. This included amending the constitution, democratising Indonesian political and social environment, removing military political role, decentralising power and authority, reforming law enforcement system, and eradicating corruption, collusion, and nepotism or know as KKN practices in the government sectors (Hefner, 2000: 202–204; Aspinall, 2004). Therefore, the end of Suharto was the beginning of a serious transformation.

Emmerson (1990) and Hadiz (1999) were assured that the lack of democratic arrangement that Suharto maintained during his tenure pushed Suharto out of his chair. While the lack of inclusive and representative framework of negotiation and decision-making has been regarded as the driver of Suharto's outcast, the corruption, collusion, and nepotism culture of the government producing a weak state institution was also pinpointed as a major cause of the collapse of the New Order regime. Albeit the dissimilar take-up that each arguments departed from, both arguments shared the same view that it is the repressiveness of the regime (Raharjo, 1981) and the patronship-setting of the distribution of opportunity (Robinson, 1988: 56) that came along with the causes of his fall. This was well-depicted by the demand to democratise Indonesian political and social environment, which was expected to adjust the political economy of the nation. As anticipated, democratisation of Indonesian socio-politico sphere transformed the negotiation setting to be more inclusive and representative, widening the opportunity spaces and opening the gate for market-based competition.

The trajectory of Indonesian political economy setting inexorably affected the expansion of Islamic economic movement. The rapid growth of the developmental-oriented Islamic financial institution after the fall of Suharto was not coincided with the democratisation of Indonesia itself. Instead, the rapid growth was a sign of the promising future of Islamic economic movement in Indonesia in the era of democratic Indonesia. Alongside the rapid expansion of the industry, the society witnessed the emergence of Non-Government Organisations (NGOs) commitly involved in the penetration of Islamic economic concept and practices in the public sphere. These organisations dedicated to the movement, among

others *Masyarakat Ekonomi Syariah* or Shariah Economic Community, *Pusat Komunikasi Ekonomi Syariah* or Centre of Communication of Shari'ah Economy, student-led Forum of Islamic Economic Study or *Fossei*, or Association of Islamic financial institutions, such as ASBISINDO, BMT Centre, and PIN BUK, have involved in the infiltration process of Islamic economics concept and practices by advocating the society, representing the interests of stakeholders, and negotiating further extension of the industry and the market. While these organisations initially emerged and engaged through different means, the movement finally formalised an organised movement under the platform *Gerakan Ekonomi Syariah* (GRES) in 2013, which literal meaning is Shari'ah Economic Movement. The enactment of this organised movement hallmarked the beginning of integrated Islamic economic movement, where communication and coordination issue will be facilitated through this institution.

The Democratisation of Indonesia socio-politico and socio-economico arena is argued here to impose a change to the environmental setting of Islamic economic movement, from regime-supportive setting with its created development likewise the case of Sudan and Kuwait (Kahf, 2004; Stiansen, 2004; and Smith, 2004) to a free contested market with extended and market-based development likewise the case of Jordan and Turkey (Baskan, 2004; Malley, 2004), representing the second wave of change of the environmental setting that enable Islamic economy and the expansion of Islamic financial industry to go further. Beside the source of change that led the second wave of change of the environmental setting, the impact that this change carried forward was on another scale from the first wave of change of the environmental setting. The second wave of change of environmental setting of Islamic economic movement in Indonesia reform the negotiation setting as well as the distribution of space, which was untouched in the first wave of change. The reform took place in Indonesia since the end of the New Order decentralised the centralistic order of command, allowing the negotiation process to be settled in autonomous and open manner. Thus, the patronship characteristic that determined distribution of spaces and opportunity for thirty two years no longer sustained and later replaced by an open-market style.

Table 1. The Emergence and Development Track of Islamic Economic Movement in Indonesia under Different Political Economy Setting

Period	Political Economy Setting	Indicators of the emergence of Islamic economics and finance
<b>Pre-Establishment of Islamic bank (1983-1992)</b>	Unfavourable Regime setting	The emergence of Islamic cooperatives and developmental-oriented Islamic economists
<b>Post-Establishment until 1998 (1992-1998)</b>	Regime-supportive setting	The establishment of first Islamic Bank; The introduction of the first act facilitating the operation of the bank
<b>Post-1998</b>	Free contested market	Increasing civil society involvement in the movement; Further consolidation leading to strong and healthy development

Sources: Author

The experience that Indonesia Islamic economic movement has gone through since its emergence is well-represented in the table 1 above. In the beginning, Islamic economic movement in Indonesia with its developmental orientation emerged from the periphery through various means, including through experimental action. The movement managed to foster the development of the institutions and practices within the unfavourable environmental setting that set the tone of political economy. Even, the movement was successful in converging the regime view to understand the empowerment nature of the movement. The active involvement of Suharto and his aid to the establishment and the financing of the first Indonesia Islamic bank and the enactment of law recognising profit-loss sharing contract could be considered as the turning point of the first wave of environmental change. Since then, other progress was made possible given the blessing of the regime. This situation drastically changed in the removal of Suharto and the transition toward democracy. The reform exercised has reformulated the negotiation setting of the political economy, creating what Yavuz (2004) called as opportunity spaces or a platform facilitating activism and exploration of “meaning, identity, and cultural codes”. This swift change marked another hallmark of the Islamic economic movement, where the second wave of change of environmental setting took place and boosted the project of the movement.

#### **IV. Reflection**

The progress that Indonesia Islamic economic movement achieved is attributed to the activism of peripheral Muslim, which not only demanding for accommodative means and tools for conducting economic and financial activities but also creating the platform for this alternative economic view. This unique quality of the movement, complemented by the unexpected reorganisation of environmental setting of the political economy of the nation, has enabled the movement to pierce into the heart of economic and financial practices by proposing a differing practical and institutional construct. Developmental-oriented Islamic financial institutions and Islamic economic practices have increased their role in the coordination and distribution of resources and opportunity, acquiring legitimacy and support to co-exist with the conventional institutions and practices. With the expanding influence of the construct, the movement encounter heavier challenges associated with the development track of the movement.

The dialectic friction between financial market development and peripheral development arouse alongside the rapid development of the institutions and practices is expected to be the most significant challenge of the development of Islamic economics and finance in Indonesia. The increasing interest in developing Islamic financial market has inspired several actors to invest capital and effort into the project. This commitment has provided Market-oriented Islamic financial institutions with support to exceed the development rate of conventional practices. The major focus to this mimic of modern conventional economic and

financial construct inevitably drew question on the purpose of such development, whether it is an attempt to capitalising Islam for resource accumulation or a foreword of Islamizing capitalism through re-engineering economic and financial product using traditional contract existed in the medieval Muslim society era. Either of this purpose signifies the allegation that perhaps Islam has not been capitalised as a third way to not only achieving economic and financial modernity but also to reallocate resources for more inclusive economic and financial engagement.

Albeit the potential problem that tickled the trajectory of the movement, the future prospect of Islamic economic and financial construct is still promising. The growth and development of Islamic economics and finance will remain strong, indicated by the increasing size, assets, and public awareness. Under the same condition, macro and meso-economic and financial institutions are gained the most, compared to micro-institutions like BMT, in the expansion of Islamic economics and finance. Consequently, inclusive, just, and equitable economy aspiration of the periphery will be faced by the reality that the focus of movement is gradually shifted toward economic and financial modernity, moving the capital to the Islamic-version of capitalism and maintaining the neo-classical order of the economy.

## References

- Abaza, M. (2004). "Markets of Faith: Jakartan Da'wa and Islamic Gentrification", *Archipel*, 67, pp. 173–202.
- Ansori, M. H. (2009). "Consumerism and the Emergence of a New Middle Class in Globalizing Indonesia", *Explorations*, 9, pp. 87–97.
- Aspinal, E. (2004). "Transformation of Civil Society and Democratic Breakthrough", in M. Alagappa (ed.) *Civil Society and Political Change in Asia: Expanding and Contracting Democratic Space*. Stanford: Stanford University Press, pp. 61–96.
- Baskan, F. (2004). "The Political Economy of Islamic Finance in Turkey: The Role of Fethullah Gülen and Asya Finans", in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 216–239.
- Bayat, A. (2007). *Making Islam Democratic: Social Movements and the Post-Islamist Turn*. Stanford: Stanford University Press.
- Choiruzzad, S. A. (2012). "The Central Bank in the Development of Islamic Economy Project in Indonesia: Role, Motivations and Moderating Effect", *The Ritsumeikan Journal of International Studies*, 25(2), pp. 437–460.
- . (2013). "More Gain, More Pain: The Development of Indonesia's Islamic Economy Movement (1980s–2012)", *Indonesia*, 95, pp. 125–172.
- Choiruzzad, S. A. and Nugroho, B. E. (2013). "Indonesia's Islamic Economy Project and the Islamic Scholars", *Procedia Environmental Sciences*, 17, pp. 957–966.

- Dekmejian, R. H. (1985). *Islam in Revolution: Fundamentalism in the Arab World*. Syracuse, New York: Syracuse University Press.
- Dick, H. (1985). "The Rise of a Middle Class and the Changing Concept of Equity in Indonesia: An Interpretation", *Indonesia*, 39, pp. 71–92.
- . (1990). "Further Reflections on the Middle Class", in R. Tanter, and K. Young (eds.), *The Politics of Middle Class Indonesia*. Clayton, Australia: Centre for Southeast Asian Studies, pp. 63–70.
- Emmerson, D. K. (1990). "Exit and Aftermath: The Crisis of 1997–98", in D. Emmerson (ed.), *Indonesia beyond Suharto*. New York: Routledge, pp. 295–343.
- Fischer, J. (2008). *Proper Islamic Consumption: Shopping among the Malays in Modern Malaysia*. Copenhagen: NIAS Press.
- Gole, N. (2000). "Snapshots of Islamic Modernities", *Daedalus*, 129(1), pp. 91–117.
- Hadiz, V. (1999). "Contesting Political Change after Suharto", in A. Budiman, B. Hatley, and D. Kingsbury (eds.), *Reformasi: Crisis and Change in Indonesia*. Melbourne: Monash Asia Institute, pp. 105–126.
- Hasan, N. (2014). "Between the Global and the Local: Negotiating Islam and Democracy in Provincial Indonesia", in G. van Klinken and W. Berenschot (eds.), *In Search of Middle Indonesia: Middle Classes in Provincial Towns*. Leiden and Boston: Brill Publishing, pp. 171–198.
- Hefner, R. W. (1996). "Islamizing Capitalism: On the Founding of Indonesia's First Islamic Bank", in M. Woodward (ed.), *Toward a New Paradigm: Recent Development in Indonesian Islamic Thought*. Arizona: Arizona State University, pp. 291–322.
- . (2000). *Civil Islam: Muslims and Democratization in Indonesia*. New Jersey: Princeton University Press.
- Hill, H. and Mackie, J. (1994). "Introduction", in H. Hill (ed.), *Indonesia's New Order: The Dynamics of Socio-Economic Transformation*. St. Leonards: Allen & Unwin.
- Hull, T. (1994). "Fertility Decline in the New Order Period: The Evolution of Population Policy, 1965–1990", in Hill, H. (ed.), *Indonesia's New Order: The Dynamics of Socio-Economic Transformation*. Sydney: Allen and Unwin, pp. 123–145.
- Ismail, S. (2006). *Rethinking Islamist Politics: Culture, the State and Islamism*. London: I. B. Tauris.
- Jones, G. (1994). "Labour Force and Education", in Hill, H. (ed.), *Indonesia's New Order: The Dynamics of Socio-Economic Transformation*. Sydney: Allen and Unwin, pp. 145–178.
- Kahf, M. (2004). "Islamic Banks: The Rise of a New Power Alliance of Wealth and Shari'a Scholarship", in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 17–36.
- Malley, M. (2004). "Jordan: A Case Study of the Relationship between Islamic Finance and

- Islamist Politics”, in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 191–215.
- Mandaville, P. (2007). *Global Political Islam*. London: Routledge.
- “Middle Class” (2015). *dictionary.cambridge.org*. Available at: < <http://dictionary.cambridge.org/dictionary/english/middle-class#translations>>
- Mills, C. W. (1951). *White Collar: The American Middle Classes*. Oxford: Oxford University Press.
- Otoritas Jasa Keuangan. (2014). *Publikasi Laporan Perkembangan Keuangan Syariah 2013*. Available at: <<http://www.ojk.go.id/publikasi-laporan-perkembangan-keuangan-syariah-2013>>, Access Date: 4 January, 2015.
- Parks, R. P. (2004). “Aiyu Bank Islami? The Marginalization of Tunisia’s BEST Bank”, in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 240–264.
- Pepinsky, T. B. (2013). “Development, Social Change, and Islamic Finance in Contemporary Indonesia”, *World Development*, 41, pp. 157–167.
- Raharjo, D. (1981). “Development and the Structure of Domination”, in I. Chalmers, and V. Hadiz (eds.), *The Politics of Economic Development in Indonesia*. London and New York: Routledge.
- Riwajanti, N. I. (2013). “Islamic Microfinance in Indonesia: A Comparative Analysis between Islamic Financial Cooperative (BMT) and Shari’ah Rural Bank (BPRS) on Experiences, Challenges, Prospects and Role in Developing Microtenreprises”, Durham theses, Durham University. Available at Durham E-Theses Online: <<http://etheses.dur.ac.uk/9386/>>
- Robinson, R. (1988). “Authoritarian States, Capital-Owning Classes, and the Politics of Newly Industrializing Countries: the Case of Indonesia”, *World Politics*, 41(1), pp. 52–74.
- Siddiqui, M. N. (1981). *Muslim Economic Thinking: A Survey of Contemporary Literature*. London: The Islamic Foundation.
- Smith, K. (2004). “The Kuwait Finance House and the Islamization of Public Life in Kuwait”, in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 168–190.
- Soliman, S. (2004). “The Rise and Decline of the Islamic Banking Model in Egypt”, in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 265–285.
- Stiansen, E. (2004). “Interest Politics: Islamic Finance in the Sudan, 1977–2001”, in C. Henry and R. Wilson (eds.), *The Politics of Islamic Finance*. Edinburgh: Edinburgh University Press, pp. 155–167.
- Wahid, A. (1990). “Indonesia’s Muslim Middle Class: An Imperative or A Choice?”, in R.



- Tanter and K. Young (eds.), *The Politics of Middle Class Indonesia*. Clayton: Centre of Southeast Asian Studies, pp. 22–24.
- Wiktorowicz, Q. (2004). *Islamic Activism: A Social Movement Theory*. Indiana: Indiana University Press.
- Yavuz, M. H. (2004). “Opportunity Spaces, Identity, and Islamic Meaning in Turkey”, in Q. Wiktorowicz (ed.), *Islamic Activism: A Social Movement Theory Approach*. Bloomington: Indiana University Press, pp. 270–288.